

THE BURDEN OF LOCAL MEDICAID FINANCING

*How Increases in Medicaid Costs Are Threatening
the Financial Health of New York's Counties*

BY SENATOR HILLARY RODHAM CLINTON

EXECUTIVE SUMMARY

In New York, Medicaid has become the largest single appropriations item in every county budget. As the economy continues to struggle and revenues decline, Medicaid costs are rising at an alarming rate due to an increase in health costs and an increase in the number of Medicaid beneficiaries. This combination of increased Medicaid expenses and decreased revenue is not limited to New York State. It is a crisis that is being experienced across the country. What makes New York's situation particularly difficult is that the state and local governments share the responsibility of their non-federal Medicaid expenses.

This report will demonstrate that, faced with a budget crisis, nearly every county in New York State may have to adopt drastic cuts to vital services and steep tax increases to balance their budgets. For example, in Tioga County, they are considering raising property taxes to offset a jump in Medicaid expenses from \$4.5 million to as much as \$7 million. Albany and Rensselaer counties now pay more for Medicaid than they collect in property taxes and are finding ways to increase property taxes and cut services. And Nassau, Westchester, and Suffolk counties have seen Medicaid costs climb to more than \$175 million since 1999.

This is a serious problem but there is a national solution that can help solve it. By raising the federal contribution to New York's Medicaid program, we can guarantee that local governments receive the assistance they need so that they do not have to raise taxes, cut services, and pass this burden on to hard working New Yorkers and Americans.

Our proposal to increase the Federal Matching Assistance Percentage (FMAP) by 1.35 points would help county governments balance their budgets and provide \$550 million in support to New York. Every county in New York would benefit. The counties of Erie, Nassau, Suffolk, and Westchester with more than \$4 million in savings. These extra dollars mean that counties can continue to maintain their parks, libraries, make capital improvements to arts and recreational centers, and avoid laying off county employees.

I worked in the Senate to pass this legislation, and am urging my colleagues in the House to pass it as soon as possible, because it will help lift this financial burden from

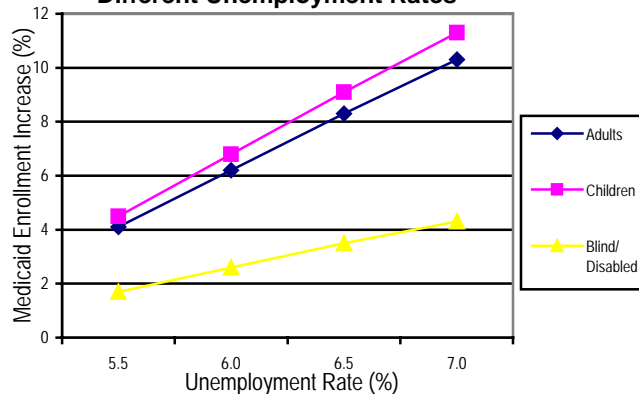
New York's counties and states across the country. Medicaid is an essential service for millions of people, but it is currently supported by a fragile source of funding. This program should not become a burden to local governments and, in turn, on local residents. We have a way to ease this crisis, and it is time to act.

INTRODUCTION

The Medicaid program has been effective in helping low-income New Yorkers, the elderly, the disabled and many others who are unable to afford the health care they need. Without the program, many of the uninsured would avoid care because the costs were too high and let their health deteriorate. The responsibility for financing the program rests with the federal, state, and in some states, local governments. However, several factors now threaten this system:

- Health care costs are now rising at an alarming rate once again, necessitating increased outlays.
- The weak economy, with its layoffs and salary cuts, has increased the number of people on the Medicaid rolls. We know that 2 out of every 5 Americans who lose their jobs lose health care as well. This is a double blow to them and their families when they can least afford it. Figure 1 shows that as unemployment increases, more individuals—particularly children—must depend on Medicaid for their health care needs.

Fig. 1: Medicaid Enrollment Changes under Different Unemployment Rates*



* Assuming baseline unemployment rate of 4.5%

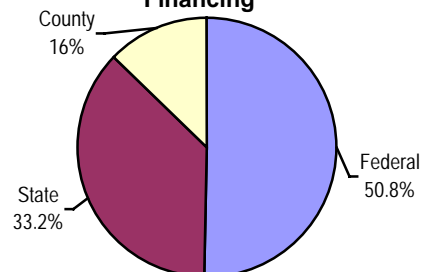
From: Holohan J and Garret B. "Rising Unemployment and Medicaid." *Health Policy Online*. Urban Institute 10/16/2001.

NEW YORKERS HIT ESPECIALLY HARD

New York is particularly affected by this crisis in Medicaid funding for 2 reasons:

- Only 50.8% of New York's Medicaid costs are covered by the Federal Government.
- While most states cover the remaining costs entirely with state funds, New York State asks counties to pay half of the remaining costs. After supplemental state

Fig. 2: Percentage of Medicaid Financing

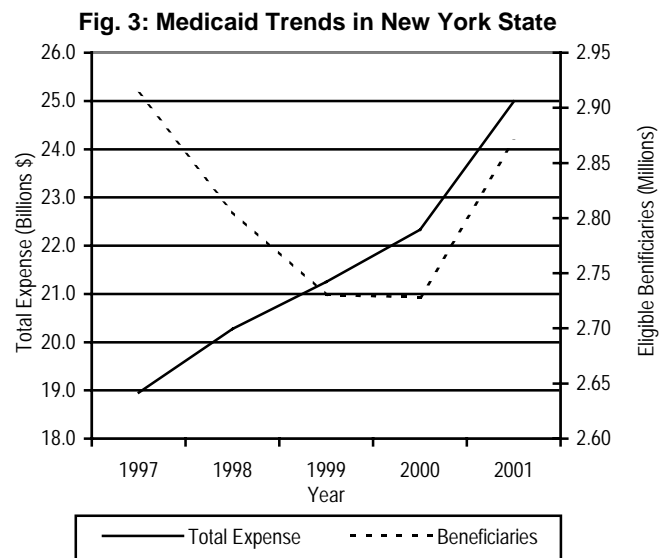


contributions are accounted for, the net share of Medicaid expenses paid for by counties, as shown in figure 2, remains 16%.

The combination of these factors has devastated county budgets. This crisis in Medicaid is forcing counties to increase their taxes and cut important services in order to meet their mandated Medicaid obligations.

MEDICAID COSTS RISING

In previous years, the number of New Yorkers eligible for Medicaid gradually declined as the economy improved. Jobs and economic opportunities gave people the chance to move off of Medicaid. Yet even during those years, total Medicaid spending continued to rise due to increased costs of health care. And now that our economy has stalled and more people are losing their jobs and health care coverage, the number of people eligible for Medicaid is once again rising. When you combine that with escalating costs, the growth curve for New York's Medicaid spending has become even steeper than before.



REVENUE DECLINING

While costs and demands for Medicaid are increasing, the revenues we count on to cover those expenses are decreasing. This weak economy affects our revenue stream in three ways:

- Sales tax revenue declines as people spend less because they become more uncertain about their family's economic future.
- Personal income plateaus and reduces the level of income tax.
- Because state taxes are often based on federal taxable income, federal tax cuts automatically and drastically reduce state income tax revenue.

In 2001, counties reported an average increase of 7% in enrollment in their Medicaid programs, with an expectation of a further 10% increase in 2002. Counties are also expecting a 12% increase in their overall 2002 Medicaid expenditures.¹

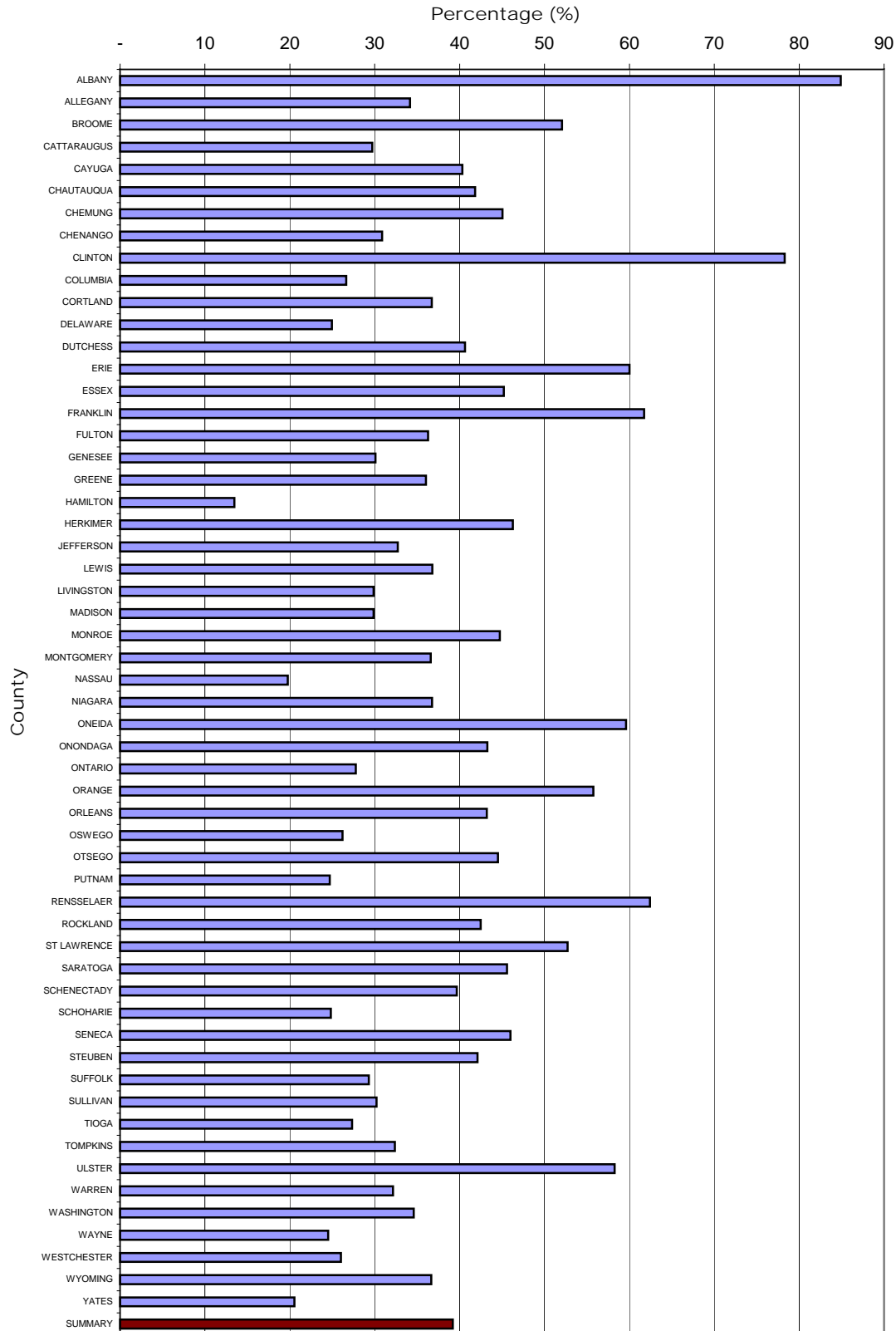
¹ "State of Counties 2002" County Budget Survey Highlights from the New York State Association of Counties, 1/25/2002.

New York's budget is stretched thin and unable to meet these added Medicaid costs. In order to balance the budget, the state and counties must cut services and raise taxes. Without an increase in the Federal Matching Assistance Percentage, counties and states across the country are forced to pass this financial burden on to residents.

MEDICAID ACCOUNTS FOR 39% OF COUNTY PROPERTY TAXES

On average, counties report that they spend on average 39% of their property tax revenue on Medicaid. For many counties Medicaid is now the single largest component of their budget. Figure 4 illustrates the percentage of each county's property taxes that go toward Medicaid. As bad as the picture looks in the chart below, it should be noted that the percentages are based on data from the year 2000—the last year budget data is available. Since then, the economy has stalled, Medicaid costs have soared, and the situation across the state is even worse.

Fig. 4: Medicaid Portion of County Property Taxes in 2000



From New York State Comptroller's Special Report on Municipal Affairs and Dept. of Health Medicaid Statistics

This report finds that in every region of the State, New York property owners are facing steep rises in property taxes or cuts in vital services.

TABLE 1: TENTATIVE BUDGET MEASURES IN SAMPLE COUNTIES ACROSS NEW YORK			
REGION	SAMPLE COUNTY	PROPERTY TAX INCREASE	ADDITIONAL MEASURES
<i>Western New York</i>			
	Chautauqua	31.0%	
	Monroe	0.0%	Budget relies on substantial cuts, layoffs, and other savings
	Cattaraugus	14.0%	
	Niagara	15.3%	
<i>Southern Tier</i>			
	Allegany	29.7%	
	Broome	35.0%	
	Chemung	0.0%	1% sales tax increase
<i>Finger Lakes</i>			
	Cayuga	32.5%	
	Onondaga	6.3%	
	Oneida	16.0%	
	Ontario	7.4%	
	Yates	5.5%	
	Tompkins	17.2%	
<i>North Country</i>			
	Jefferson	10.5%	
	Clinton	18.2%	
	Warren	15.0%	
<i>Greater Capital Region</i>			
	Albany	23.8%	
	Montgomery	29.0%	
	Rensselaer	35.0%	
	Washington	24.0%	
	Schoharie	9.5%	
	Schenectady	20.0%	
<i>Hudson Valley</i>			
	Orange	21.0%	
	Dutchess	14.7%	
	Rockland	5.0%	Budget reinstates the sales tax on clothing
	Sullivan	0.0%	$\frac{3}{4}$ % sales tax increase
	Ulster	24.2%	
	Westchester	31.0%	
<i>Long Island</i>			
	Nassau	19.4%	

	Suffolk	6.7%	Budget reinstates the sales tax on clothing
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From the New York Association of Counties

These charts alone do not paint the entire picture, and the examples below show just how much counties are struggling to cover these budget shortfalls.

- Tioga County is projecting that its Medicaid costs will increase from \$4.5 million to between \$6-7 million. This is forcing county officials to raise its property tax by double digits, increase the sales tax, and use more than half of their reserve fund to balance their 2003 budget.²
- As quoted in the *Albany Times Union*, Albany County Executive Mike Breslin stated, “at this point, there’s no question we’re looking at not only a tax increase, but reduced services and a reduction in the county work force – all three.” In the seven years that Mr. Breslin has been County Executive, Medicaid spending has increased from \$33 million to \$60 million a year. Rensselaer and Albany counties now pay more for Medicaid than they collect in property taxes.³
- Chautauqua County’s Medicaid expenses have increased 80% since 1998 and are projected to consume 71% of the county’s tax levy in 2003.⁴
- Three downstate counties, Nassau, Westchester and Suffolk, are seeing their Medicaid expenses rise 50% since 1999 to an estimated \$175 million in 2003. Westchester is contemplating a 10% increase in property taxes due to a projected \$28 million increase in Medicaid spending.⁵

CLINTON PROPOSAL WOULD SAVE \$550 MILLION

On July 24th, I co-sponsored Senate Amendment 4316 which includes a temporary increase in the FMAP by 1.35 percentage points for the last half of FY2002 and all of FY2003.

The increase in FMAP would have a large effect on state and county finances. In the enacted 2002-2003 budget, New York State has planned to spend \$36.2 billion in Medicaid. Assuming a 12% growth rate in 2002 and 2003, the net county share of Medicaid—including New York City, will reach \$5.5 billion. The increase in FMAP would provide \$550 million in extra federal support. This translates to over \$145 million in savings to local governments. The amount each county would save (excluding New York City) is shown in figure 5. New York City would save more

² Conners, Kara. “Tioga weighs double-digit tax hike.” *Ithaca Journal*. 10/11/2002.
<http://www.theithacajournal.com/news/stories/20021011/localregional/263350.html>

³ LeBrun, Fred. “Taxpayers take the hit on Medicaid.” *Albany Times Union*. 9/27/2002.
<http://www.timesunion.com/AspStories/story.asp?storyID=56227#>

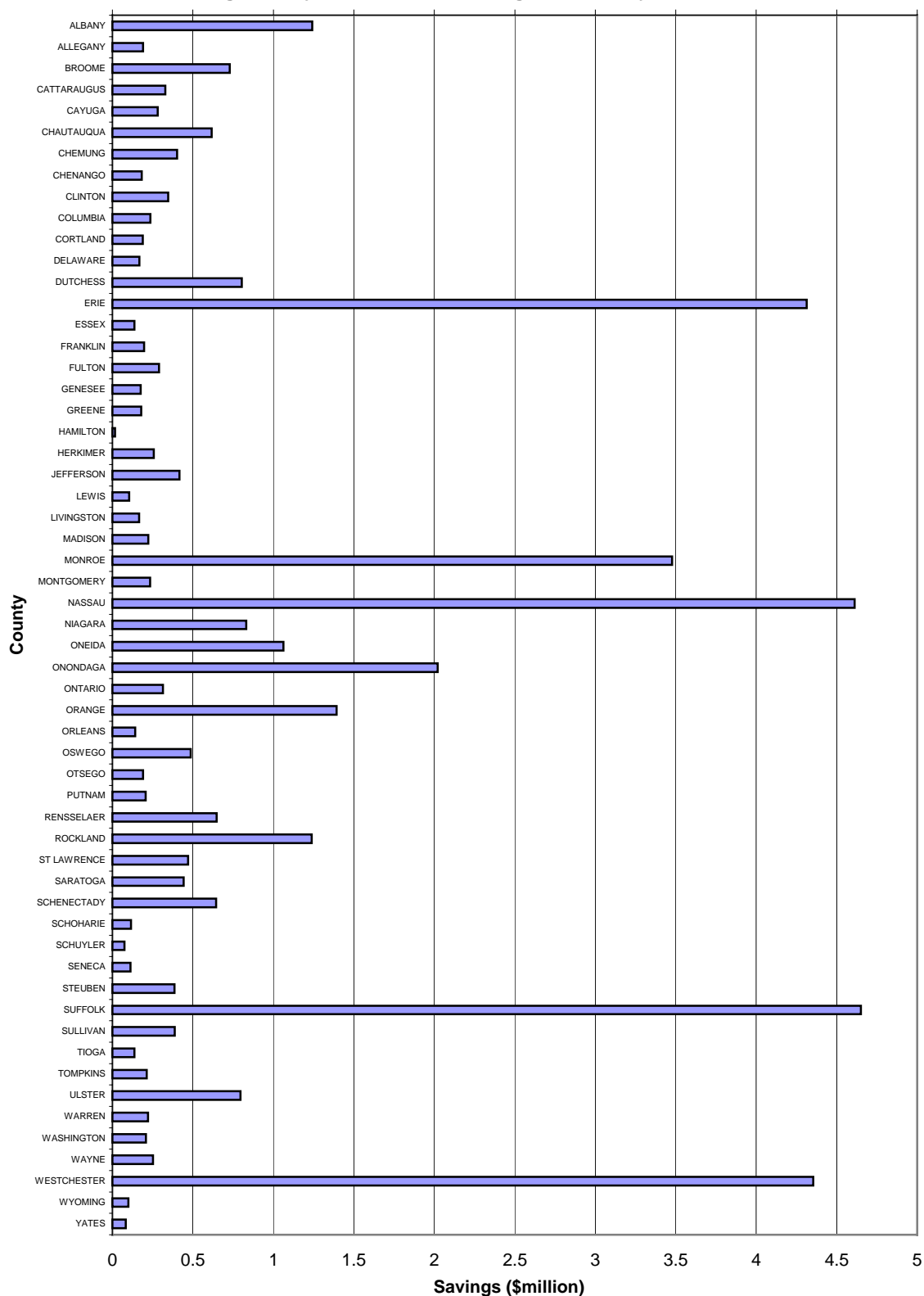
⁴ Thomas, Mark. “Medicaid & New York Counties.” *Jamestown Post-Journal*. 8/18/2002.

⁵ Gralla, Joan. “Three N.Y. counties face Medicaid-driven tax hikes.” *Forbes.com* 9/12/2002.
<http://finance.northernlight.com/home/newswire/2002/09/12/rtr720128.html>

than \$100 million, while Erie, Nassau, Suffolk and Westchester counties would each save more than \$4 million.

This amendment passed the Senate, and it now awaits approval from the House. I urge our Representatives to take action immediately so that Medicaid is no longer a financial burden on states and local governments, and can resume its role as a beneficial health care system for those in need of care.

Fig. 5: Projected Medicaid Savings Per County in 2003



Based on New York State Dept. of Health Medicaid Statistics and assuming 12% growth in Medicaid costs in '02 and '03.